

Financial Statements and Report of
Independent Certified Public
Accountants

Crohn's & Colitis Foundation, Inc.

December 31, 2019 and 2018

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the National Board of Trustees of the
Crohn's & Colitis Foundation, Inc.:

Report on the financial statements

We have audited the accompanying financial statements of Crohn's & Colitis Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crohn's & Colitis Foundation, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on 2018 summarized comparative information

We have previously audited the Foundation's 2018 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 12, 2019. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.



New York, New York
June 29, 2020

Crohn's & Colitis Foundation, Inc.

STATEMENT OF FINANCIAL POSITION

As of December 31, 2019, with summarized comparative information for 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 3,100,451	\$ 12,365,023
Pledges receivable, net	13,001,335	9,849,767
Bequests receivable	521,377	270,432
Prepaid expenses and other assets	4,344,565	4,315,901
Investments	20,238,195	17,450,761
Reinsurance contracts	228,669	240,848
Charitable remainder trusts	1,664,654	50,444
Fixed assets, net	2,175,003	2,039,912
Total assets	\$ 45,274,249	\$ 46,583,088
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 4,791,819	\$ 5,219,133
Research grants payable	25,547,248	27,522,249
Deferred rent	335,932	378,307
Deferred revenue	5,552,232	4,167,778
Reinsurance contracts	228,669	240,848
Total liabilities	36,455,900	37,528,315
Commitments (Note 8)		
NET ASSETS (DEFICIT)		
Net assets without donor restrictions	(5,307,069)	(2,111,482)
Net assets with donor restrictions	14,125,418	11,166,255
Total net assets	8,818,349	9,054,773
Total liabilities and net assets	\$ 45,274,249	\$ 46,583,088

The accompanying notes are an integral part of this financial statement.

Crohn's & Colitis Foundation, Inc.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2019, with summarized comparative information for 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	2019 Total	2018 Total
OPERATING CONTRIBUTIONS, GRANTS AND OTHER INCOME AND SUPPORT				
Contributions and grants:				
Contributions and grants from individuals, foundations and corporations	\$ 13,463,518	\$ 19,934,671	\$ 33,398,189	\$ 35,888,955
Contributed services and airtime	7,996,354	-	7,996,354	8,140,353
Special events revenue	36,083,192	-	36,083,192	36,311,942
Less: Costs of direct benefits to donors	<u>(7,316,025)</u>	<u>-</u>	<u>(7,316,025)</u>	<u>(7,616,317)</u>
Net special events revenue	<u>28,767,167</u>	<u>-</u>	<u>28,767,167</u>	<u>28,695,625</u>
Federated campaigns	1,184,804	-	1,184,804	1,355,181
Bequests	<u>2,473,718</u>	<u>-</u>	<u>2,473,718</u>	<u>651,559</u>
Total operating contributions and grants	<u>53,885,561</u>	<u>19,934,671</u>	<u>73,820,232</u>	<u>74,731,673</u>
Other income:				
IBD Plexus membership revenue	4,765,830	-	4,765,830	4,330,414
Program service fees	509,670	-	509,670	503,862
Investment return designated for operations	1,119,881	-	1,119,881	302,943
Federal grant revenue	581,443	-	581,443	418,583
Royalties	416,509	-	416,509	312,439
Other	<u>869,326</u>	<u>-</u>	<u>869,326</u>	<u>952,494</u>
Total other income	<u>8,262,659</u>	<u>-</u>	<u>8,262,659</u>	<u>6,820,735</u>
Total operating contributions and other income	<u>62,148,220</u>	<u>19,934,671</u>	<u>82,082,891</u>	<u>81,552,408</u>
Net assets released from restrictions	<u>16,975,508</u>	<u>(16,975,508)</u>	<u>-</u>	<u>-</u>
Total operating contributions, grants and other income and support	<u>79,123,728</u>	<u>2,959,163</u>	<u>82,082,891</u>	<u>81,552,408</u>
OPERATING EXPENSES				
Program services:				
Research	29,510,518	-	29,510,518	28,728,120
Health professional education and public information	39,319,124	-	39,319,124	38,589,063
Total program services	<u>68,829,642</u>	<u>-</u>	<u>68,829,642</u>	<u>67,317,183</u>
Supporting services:				
Management and general	10,189,131	-	10,189,131	9,918,401
Fundraising	4,871,325	-	4,871,325	4,741,895
Total supporting services	<u>15,060,456</u>	<u>-</u>	<u>15,060,456</u>	<u>14,660,296</u>
Total operating expenses	<u>83,890,098</u>	<u>-</u>	<u>83,890,098</u>	<u>81,977,479</u>
Changes in net assets from operating activities	<u>(4,766,370)</u>	<u>2,959,163</u>	<u>(1,807,207)</u>	<u>(425,071)</u>
Non-operating activities:				
Investment return, net of amounts designated for operations	1,564,130	-	1,564,130	(1,093,293)
Changes in remainder trust valuations	<u>6,653</u>	<u>-</u>	<u>6,653</u>	<u>(3,721)</u>
Total non-operating activities	<u>1,570,783</u>	<u>-</u>	<u>1,570,783</u>	<u>(1,097,014)</u>
Changes in net assets	<u>(3,195,587)</u>	<u>2,959,163</u>	<u>(236,424)</u>	<u>(1,522,085)</u>
Net assets, beginning of year	<u>(2,111,482)</u>	<u>11,166,255</u>	<u>9,054,773</u>	<u>10,576,858</u>
Net assets, end of year	<u>\$ (5,307,069)</u>	<u>\$ 14,125,418</u>	<u>\$ 8,818,349</u>	<u>\$ 9,054,773</u>

The accompanying notes are an integral part of this financial statement.

Crohn's & Colitis Foundation, Inc.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2019, with summarized comparative information for 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (236,424)	\$ (1,522,085)
Adjustments to reconcile changes in net assets to net cash and cash equivalents (used in) provided by operating activities:		
Depreciation and amortization of fixed assets	661,530	580,206
Amortization of licensing fees	75,000	75,004
Straight-line rent adjustment	(42,375)	3,880
Net realized and unrealized (gains) losses on investments	(2,370,811)	1,093,293
Donated securities	(641,800)	(522,455)
Change in valuation of charitable remainder trusts	(6,653)	3,721
Provision for uncollectible accounts	170,214	188,251
Amortization of discount to present value on bequests and pledges receivable	66,610	14,357
Changes in operating assets and liabilities:		
Pledges receivable	(3,394,971)	(1,792,044)
Bequests receivable	(244,367)	-
Prepaid expenses and other assets	(103,664)	1,438,902
Charitable remainder trusts	(1,607,557)	-
Accounts payable and accrued expenses	(427,314)	658,461
Deferred revenue	1,384,454	1,974,643
Research grants payable	(1,975,001)	(1,301,401)
Net cash and cash equivalents (used in) provided by operating activities	(8,693,129)	1,985,071
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(10,781,984)	(3,683,238)
Proceeds from sales of investments	11,007,162	4,027,139
Purchases of fixed assets	(796,621)	(698,849)
Net cash and cash equivalents used in investing activities	(571,443)	(354,948)
Net decrease in cash and cash equivalents	(9,264,572)	(2,340,019)
Cash and cash equivalents, beginning of year	12,365,023	14,705,042
Cash and cash equivalents, end of year	\$ 3,100,451	\$ 12,365,023
Other supplemental information:		
Equity securities received	\$ 859,811	\$ 783,010

The accompanying notes are an integral part of this financial statement.

Crohn's & Colitis Foundation, Inc.

STATEMENT OF FUNCTIONAL EXPENSES

Years ended December 31, 2019, with summarized comparative information for 2018

	Program Services			Supporting Services			Total		
	Research	Health Professional Education and Public Information	Total	Management and General	Fundraising	Costs of Direct Benefits to Donors	Total	2019	2018
Research grants and development costs, net	\$ 23,911,452	\$ -	\$ 23,911,452	\$ -	\$ -	\$ -	\$ -	\$ 23,911,452	\$ 23,776,187
Salaries and related expenses	3,344,783	18,815,455	22,160,238	6,629,479	3,169,493	-	9,798,972	31,959,210	29,835,496
Contract services and fees	744,689	7,220,916	7,965,605	1,216,432	581,565	5,581,463	7,379,460	15,345,065	15,596,066
Contributed services and airtime	269,995	7,726,359	7,996,354	-	-	-	-	7,996,354	8,140,353
Publications and related printed materials	42,260	490,845	533,105	208,854	99,850	-	308,704	841,809	873,459
Occupancy costs	67,715	1,164,215	1,231,930	506,077	241,950	-	748,027	1,979,957	1,889,316
Postage	25,403	395,245	420,648	171,036	81,771	-	252,807	673,455	694,427
Conferences and conventions	681,648	61,021	742,669	506	241	-	747	743,416	728,608
Telephone and communications	38,901	366,719	405,620	149,359	71,407	-	220,766	626,386	587,808
Meetings and travel	127,893	1,065,761	1,193,654	459,397	219,633	598,350	1,277,380	2,471,034	2,487,934
Office supplies and expenses	34,816	363,451	398,267	154,985	74,097	-	229,082	627,349	776,264
Advertising	31,696	501,447	533,143	217,237	103,859	-	321,096	854,239	746,217
Adjustment to provision for uncollectible accounts	5,821	100,086	105,907	43,507	20,800	-	64,307	170,214	188,251
Other	159,707	597,056	756,763	254,842	121,836	1,136,213	1,512,891	2,269,654	2,618,199
Total expenses before depreciation and amortization	29,486,779	38,868,576	68,355,355	10,011,711	4,786,502	7,316,026	22,114,239	90,469,594	88,938,585
Depreciation and amortization	23,739	450,548	474,287	177,420	84,823	-	262,243	736,530	655,211
Total functional expenses	29,510,518	39,319,124	68,829,642	10,189,131	4,871,325	7,316,026	22,376,482	91,206,124	89,593,796
Less:									
Costs of direct benefits to donors of special events	-	-	-	-	-	(7,316,026)	(7,316,026)	(7,316,026)	(7,616,317)
Total expenses reported by function on the statement of activities	\$ 29,510,518	\$ 39,319,124	\$ 68,829,642	\$ 10,189,131	\$ 4,871,325	\$ -	\$ 15,060,456	\$ 83,890,098	\$ 81,977,479

The accompanying notes are an integral part of this financial statement.

Crohn's & Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Crohn's & Colitis Foundation, Inc. (the "Foundation") is a not-for-profit organization founded in 1967.

The Foundation's mission is to cure Crohn's disease and ulcerative colitis, and to improve the quality of life of children and adults affected by these diseases. For more than five decades, the Foundation has remained at the forefront of research in Crohn's disease and ulcerative colitis, collectively known as inflammatory bowel diseases. Today, the Foundation funds cutting-edge studies at major medical institutions, nurtures investigators at the early stages of their careers, and finances underdeveloped areas of research. In addition, the Foundation also offers a wide range of educational programs for patients and health-care professionals, and provides supportive services to help people cope with these chronic intestinal diseases.

The Foundation has its headquarters in New York City (the "National Office") and has 39 Chapters (the "Chapters") across the United States.

Basis of Presentation

The accompanying financial statements of the Foundation, which include the 39 chapters and the volunteer affiliates, have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"). Those standards require that net assets and revenues, gains, expenses and losses be classified as net assets with our without restrictions based on the existence or absence of donor-imposed restrictions as follows:

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions represent resources that are available in support of operations, including resources for capital expenditures; and

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions. Net assets with donor restrictions include amounts that are restricted by donors for particular research projects or education programs, or are restricted as to the timing of use.

Net assets with donor restrictions also include funds whereby the donors have stipulated that the principal contributed be invested and maintained in perpetuity. As of and for the years ended December 31, 2019 and 2018, the Foundation had no such funds.

Cash and Cash Equivalents

The Foundation considers highly liquid financial instruments with original maturities of three months or less when purchased, to be cash equivalents.

Revenue Recognition

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), the Foundation recognizes revenue when control of the promised goods or services is transferred to the Foundation's customers in an amount that reflects the consideration the Foundation expects to be entitled to in exchange for those goods or services. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied.

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

ASC 606 also requires new and expanded disclosures regarding revenue recognition to ensure an understanding as to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation has identified IBD Plexus Membership Revenue and Royalties as its only revenue category subject to the adoption of ASC 606. The Foundation recognizes contracts with customers, as goods or services transferred or provided in accordance with ASC 606.

The results of applying ASC 606 using the modified retrospective approach did not have a material impact on the consolidated balance sheets, statements of activities, cash flows, business processes, controls or systems of the Foundation.

IBD Plexus Membership Revenue

On October 2, 2017, the Foundation launched IBD Plexus, a first-of-its-kind information exchange platform housing data from thousands of patients participating in four of the Foundation's cohort groups - IBD Qorus, RISK pediatric, SPARC IBD, and IBD Partners. Patients have contributed millions of data points, which are now accessible from a single location. IBD Plexus allows investigators to more rapidly access key information for research purposes. After completion of a written proposal, individual members of the program receive access to biosamples and raw data. Revenue is recognized over the contractual period of the agreement. The Foundation recognized revenue of \$4,765,830 and \$4,330,414 on the accompanying statement of activities for the years ended December 31, 2019 and 2018, respectively. Amounts received under these arrangements that apply to future periods are reported as deferred revenue.

Royalties

The Foundation receives royalties from its publication provided to its members. Royalty revenue is recorded when earned.

Contributions and Grants

In June 2018, the FASB issued Accounting Standards Update ("ASU") ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement (or a referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. The Foundation adopted the standard for recipients in 2019. The adoption did not have a material impact on the Foundation's financial statements.

The Foundation receives grants and contributions from a number of sources including the U.S. government, private foundations, and other donors. Grants and contributions are evaluated as to whether they qualify as exchange transactions or contributions as defined by U.S. GAAP. Unconditional contributions, including cash, promises to give, and certain contributed services, gifts-in-kind and other assets are recorded as revenue, at fair value, when received. Conditional contributions are recorded when the conditions on which they depend are substantially met. Contributions are recorded, net of estimated uncollectible amounts. Unconditional pledges that are expected to be collected within one year are recorded at their net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using an appropriate discount rate which articulates with the collection period of the respective pledge. Amortization of the related discounts is included in contributions revenue.

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

Conditional contributions, including promises to give, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Unconditional promises to give scheduled to be paid in future years are discounted to present value using an appropriate discount rate. Amortization of the discount is recorded as additional contribution revenue.

The Foundation maintains an allowance for uncollectible pledges for estimated losses that may result from the inability of its donors to make payments. Such allowances are based upon several factors, including, but not limited to, historical collection experience and the financial condition of its donors. Receivables are written-off when deemed to be uncollectible.

Contributed Services and Airtime

The Foundation's volunteers, comprised principally of physicians and health professionals, have made significant contributions of their time in furtherance of the Foundation's programs. The Foundation has determined that such donated services meet the criteria for recognition in the financial statements and are reported as both revenue and expense in the statement of activities at fair value. Total donated services amounted to \$3,072,567 and \$2,972,235 for the years ended December 31, 2019 and 2018, respectively.

The Foundation receives considerable in-kind contributions primarily in the form of donated public service announcements on television and radio stations. The fair value of such in-kind contributions, based upon information provided by third-party media services, is reflected in the statement of activities as contributed airtime revenue and health professional education and public information program service expense. Total contributed airtime amounted to \$4,923,787 and \$5,168,118 for the years ended December 31, 2019 and 2018, respectively.

Special Events Revenue

Revenue and expenses related to a special event are recognized upon the occurrence of the respective event. Amounts received in advance of the event are recorded as deferred revenues and costs incurred prior to the event date are recognized as prepaid expenses on the statement of financial position.

Federated Campaigns

The Foundation participates in several federated campaigns. The federated campaigns raise funds for their member organizations through employee payroll deductions through workplace giving campaigns. The Foundation receives a share of the total workplace giving campaign. Since the Foundation does not receive enough information to calculate an expected amount to be received in the future, federated campaign revenue is recorded when the funds are received.

Deferred Revenue

Deferred revenue consists of conditional contributions, payments on contracts in which deliverables have not yet been met, and a non-refundable one-time signing bonus received by the Foundation in connection with a third party to publish the Foundation's journal. The conditional contributions are recognized as income when the conditions have been substantially met and the signing bonus revenue and revenues on contracts will be recognized ratably over the contractual term of the arrangement as specified in the agreement.

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

The following table depicts the significant activities of deferred revenue:

	December 31, 2018	Revenue recognized in 2019	Cash received in advance of performance	December 31, 2019
IBD Plexus membership revenue	\$ 2,590,827	\$ 4,765,830	\$ 6,690,000	\$ 4,514,997
Signing bonus	231,771	46,354	-	185,417
Other	1,345,180	1,031,540	538,178	851,818
	<u>\$ 4,167,778</u>	<u>\$ 5,843,724</u>	<u>\$ 7,228,178</u>	<u>\$ 5,552,232</u>

The deferred revenue balance of \$5,552,232 at December 31, 2019 includes amounts totaling \$5,356,815 that will be earned and recognized as revenue in the next fiscal year, and \$195,417 that will be earned thereafter.

Fair Value Measurements

The FASB Topic 820, under the FASB ASC defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level I - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market;
- Level II - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed; and
- Level III - Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed from sources independent of the reporting Foundation. Unobservable inputs reflect the reporting foundation's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

The Foundation has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value, except for those investments that are measured at fair value using the net asset value ("NAV") per share practical expedient.

The Foundation follows the accounting standards of the FASB ASC Subtopic, 820-10-35-59, *Fair Value Measurement and Disclosures – Fair Value Measurements of Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. This allows for the estimation of the fair value of investments in investment companies, for which the investment does not have a readily determinable fair value, using NAV per share or its equivalent, as provided by the investment managers. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the NAVs of these investments as of the measurement date. These estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed.

Investment Spending Policy

Effective January 1, 2019, the Foundation instituted a spending rate policy to facilitate growth in its mission investment. Under this policy, the Foundation's Investment Committee recommends the annual spending rate ranging from 0%-5%, or as deemed appropriate, calculated over the investment portfolio's 36-month rolling average. The spending rate is incorporated into the budget review by the Budget & Finance Committee and approved by the Board of Trustees. In establishing the spending rate, the Investment Committee shall consider general economic conditions, the effects of inflation or deflation and the investment portfolio returns in the prior 3, 5 and 7-year periods. The investment return appropriated by the Board of Trustees is reported as operating revenue on the Foundation's statement of activities. The difference between the actual realized and unrealized gain or loss on the investment portfolio and the authorized spending level is reported as a nonoperating activity. The approved spending rate for the December 31, 2019 fiscal year was 5% and totaled \$806,682, which is included in investment return designated for operations. Interest and dividends, net of investment fees of \$313,199 and \$302,943, are reported in investment return designated for operations for the years ended December 31, 2019 and 2018, respectively.

Bequests Receivable

The Foundation records bequests as contribution revenue in the year of notification, when the gift is irrevocable and the value can be estimated. Bequests are recognized as revenue when the Foundation has an irrevocable right to the gift, such as when the bequest has been through probate and declared valid.

Charitable Remainder Trusts

The Foundation has been named as a beneficiary of charitable remainder trusts held by third-party trustees. A charitable remainder trust is an arrangement in which a donor establishes a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. The Foundation will receive its share of the assets remaining upon the termination of the charitable remainder trusts. The Foundation has recorded the estimated present value of its beneficial interest in each of the trust's assets as charitable remainder trusts. The Foundation's interest in trust assets are deemed to be Level III financial instruments.

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

Fixed Assets

Fixed assets, which consist of furniture, fixtures, equipment and website development costs are recorded at cost or, if donated, at fair value on the date received. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 10 years. Leasehold improvements are amortized over the remaining lease term or the estimated life of the improvements, whichever is shorter.

Research Grants Payable

The Foundation records appropriations for research grants as a liability and expense after approval by the National Board of Trustees based upon: (i) the recommendations of the Board's advisory committees including the National Scientific Advisory Committee's Grants Review Committee, the Research Training Awards Program Committee and the Research Initiatives Committee, and any appropriate ad hoc review committee (collectively, the "Review Committees"); and (ii) the availability of funding. Grants are approved for a one-year term with conditional annual renewal periods up to two years. The grants are conditional based upon the receipt, review and approval of annual progress reporting and evaluation of program accomplishments from the grant recipients by the Review Committees. The annual grants are disbursed monthly over the period for which they have been approved. Conditional grants are recognized in the period in which the terms of the conditions are satisfied by the respective grantee.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service activity to which they relate are charged accordingly. Other expenses have been allocated among program and supporting services based on effort reporting determined by the Foundation to be appropriate.

Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation limit. The Foundation does not believe that a significant risk of loss due to the failure of a financial institution to perform exists.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The most significant management estimates and assumptions relate to the determination of allowances for doubtful accounts for pledges receivable, the allocation of certain expenses amongst program and supporting activities, the present value of the Foundation's beneficial interest in charitable remainder trusts, obligations to annuitants, the useful lives assigned to fixed assets and value of in-kind contributions. Actual results could differ from these estimates.

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

Measure of Operations

The accompanying statement of activities present the changes in net assets distinguishing between operating and nonoperating activities. Operating activities principally include all revenues and expenses that relate to the Foundation's core mission. Operating revenues include investment return pursuant to the Foundation's investment spending policy. Operating revenues also include the release of net assets with donor restrictions net assets in support of operating activities, and all contributions without donor restrictions and with donor restrictions.

The Foundation has defined nonoperating activities principally to include endowment return (loss), net of amounts distributed to support operations in accordance with the investment spending policy and changes in remainder trust valuations. Certain other gains and losses considered to be of a more unusual or non-recurring nature are also included as part of nonoperating activities.

Income Taxes

The Foundation is a not-for-profit voluntary health organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and has been classified as a publicly supported charitable organization under Section 509(a)(1) of the Code and qualifies for the maximum charitable contribution deduction by donors. Contributions to the Foundation are tax deductible within the limitations prescribed by the Code. The Foundation is also exempt from state and local taxes under similar statutes.

Accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement, provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged. The Foundation is exempt from income tax under the Code, however, is subject to tax on income unrelated to its exempt purposes, unless that income is otherwise excluded under the Code. The Foundation has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements. In addition, the Foundation has not recorded a provision for income taxes as it has no material tax liability from unrelated business income activities.

Summarized Comparative Information

The financial statements include certain prior year summarized comparative information in total, which does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Foundation's audited financial statements as of and for the year ended December 31, 2018, from which the summarized information was derived.

Reclassifications

Certain reclassifications were made to the 2018 financial statements in order to conform to the 2019 presentation. Such reclassifications did not change total assets, total liabilities, revenues, expenses or changes in net assets as reflected in the 2018 financial statements.

Subsequent Events

Management has evaluated subsequent events through June 29, 2020, which is the date the financial statements were available to be issued. Except as disclosed in Footnote 5 and the following paragraphs, the Foundation is not aware of any material subsequent events which would require recognition or disclosure in the accompanying financial statements.

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

The COVID-19 pandemic, whose effects first became known in January 2020, is having a broad and negative impact on commerce and financial markets around the world. The extent of the impact of COVID-19 on the Foundation's operation and financial performance will depend on certain developments, including the duration and spread of the outbreak and its impact on the Foundation's fundraising activities, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact the Foundation's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.

On April 24, 2020, the Foundation secured a loan of \$5,721,600 under the federal government's Paycheck Protection Program to cover payroll costs, rent and utilities. Management anticipates that the full amount of the loan will be forgiven.

Recent Accounting Pronouncements

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which requires organizations to determine whether a contribution is conditional based on whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the agreement (or a referenced document) includes both, the recipient is not entitled to the transferred assets (or a future transfer of assets) until it has overcome the barriers in the agreement. For resource providers, the amendments are effective for annual periods beginning after December 15, 2019 (i.e., fiscal year 2020). The Foundation is currently evaluating the new guidance and has not determined the impact this standard may have on the financial statements nor decided upon the method of adoption.

In February 2016, the FASB issued the new guidance, ASU 2016-02, *Leases*, which simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Under the new guidance, lessees will be required to recognize a lease liability, which is a lessor's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control use of, a specified asset for the lease term for all leases (with the exception of short-term leases) at the adoption date. The new guidance is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years after December 15, 2022 (i.e., fiscal year 2022). Early adoption is permitted for any interim or annual financial statements not yet issued. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing and operating leases) must apply a modified retrospective approach for all leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Management is currently evaluating the impact that ASU 2016-02 will have on the consolidated financial statements.

NOTE 2 - RESEARCH GRANTS

At December 31, 2019 and 2018, the accompanying statements of financial position include research grants payable of \$25,547,248 and \$27,522,249, respectively, which are payable within one year.

In 2019 and 2018, grants in the amount of \$1,187,786 and \$1,176,002, respectively, were refunded/rescinded and netted with grants expense in the accompanying statements of activities and functional expenses.

In addition, the Foundation has unpaid conditional grants outstanding of \$15,421,406 and \$14,994,479 at December 31, 2019 and 2018, respectively, which are payable upon satisfaction of the underlying conditions by the grantees and, therefore, such amounts have not been recorded in the accompanying financial statements.

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

NOTE 3 - REINSURANCE CONTRACTS

On October 21, 2011, the Foundation entered into an agreement with an insurance company to reinsure its charitable gift annuity program. Under the terms of the agreement, the insurance company agreed to assume the risk of changes in the present value of expected future cash flows payable to the annuitants in exchange for cash consideration. Additionally, the insurance company agreed to administer the monthly payments made to the beneficiaries over the duration of the annuity agreements. Subsequent changes in the actuarial present value of the Foundation's liability to annuitants do not impact the Foundation's statement of activities. As of December 31, 2019 and 2018, the actuarial present value of the Foundation's liability to the beneficiaries was \$228,669 and \$240,848, respectively. The discount rate was 4.00% for the years ended December 31, 2019 and 2018.

Since the inputs in determining the fair value of the reinsurance agreement are not observable, the Foundation's beneficial interest is classified as Level III within the fair value hierarchy. The following table summarizes the activity within the Foundation's Level III charitable gift annuities for the years ended December 31, 2019 and 2018:

	2019	2018
Balance at January 1,	\$ 240,848	\$ 248,183
Change in value of reinsurance contracts	(12,179)	(7,335)
Balance at December 31,	\$ 228,669	\$ 240,848

NOTE 4 - PLEDGES RECEIVABLE, NET

At December 31, 2019 and 2018, pledges receivable, net, are due to be collected as follows:

	2019	2018
Within one year	\$ 8,661,763	\$ 6,504,446
One to five years	4,822,536	3,715,720
More than five years	-	22,500
	13,484,299	10,242,666
Discounted to present value (at rates ranging from 0.32% to 5.00%)	(137,901)	(64,712)
Net present value	13,346,398	10,177,954
Allowance for uncollectible pledges	(345,063)	(328,187)
Pledges receivable, net	\$ 13,001,335	\$ 9,849,767

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

NOTE 5 - CHARITABLE REMAINDER TRUSTS

At December 31, 2019 and 2018, the Foundation has a beneficial interest in irrevocable charitable remainder trusts. During the year end December 31, 2019, the Foundation received notification of two charitable remainder trusts totaling \$1,607,567, the proceeds of which was received in January 2020. The present value of the Foundation's future interests in these charitable remainder trusts, which amount to \$57,097 and \$50,444 at December 31, 2019 and 2018, respectively, has been recorded as charitable remainder trusts, in accordance with the terms of the trusts and are included in net assets with donor restrictions. The present value of these trusts is calculated using a discount rate of 5.8% at December 31, 2019 and 2018. Changes in the fair value of these charitable remainder trusts amounted to an increase of \$6,653 for the year ended December 31, 2019 and a decrease of \$3,721 for the year ended December 31, 2018. While the underlying trusts' assets are marketable, the Foundation's beneficial interest is classified as Level III within the fair value hierarchy.

The following table summarizes the activity within the Foundation's Level III charitable remainder trust's assets for the years ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Balance at January 1,	\$ 50,444	\$ 54,165
Contributions	1,607,557	-
Change in value of beneficial interests in trusts	<u>6,653</u>	<u>(3,721)</u>
Balance at December 31,	<u>\$ 1,664,654</u>	<u>\$ 50,444</u>

NOTE 6 - INVESTMENTS

Investments as of December 31, 2019 and 2018 consist of the following:

	<u>2019</u>	<u>2018</u>
Short-term investments (primarily money market funds)	\$ 42,405	\$ 46,827
Certificate of deposit	174,096	174,096
Mutual funds:		
Equities	8,516,830	9,974,072
Fixed income	11,002,172	6,791,965
Equities	33,805	11,510
Marketable alternative assets	458,931	451,187
Other	<u>9,956</u>	<u>1,104</u>
Total	<u>\$ 20,238,195</u>	<u>\$ 17,450,761</u>

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

The following table summarizes the valuation of the Foundation's investments within the fair value hierarchy as of December 31, 2019:

	2019				
	Level I	Level II	Level III	Investments at NAV	Total
Short-term investments (primarily money markets)	\$ 42,405	\$ -	\$ -	\$ -	\$ 42,405
Certificate of deposit	174,096	-	-	-	174,096
Mutual funds:					
Equities	8,516,830	-	-	-	8,516,830
Fixed income	11,002,172	-	-	-	11,002,172
Equities	33,805	-	-	-	33,805
Marketable alternative assets	-	-	78,302	380,629	458,931
Other	-	9,956	-	-	9,956
Total	\$ 19,769,307	\$ 9,956	\$ 78,302	\$ 380,629	\$ 20,238,195

The following table summarizes the valuation of the Foundation's investments within the fair value hierarchy as of December 31, 2018:

	2018				
	Level I	Level II	Level III	Investments at NAV	Total
Short-term investments (primarily money markets)	\$ 46,827	\$ -	\$ -	\$ -	\$ 46,827
Certificate of deposit	174,096	-	-	-	174,096
Mutual funds:					
Equities	9,974,072	-	-	-	9,974,072
Fixed income	6,791,965	-	-	-	6,791,965
Equities	11,510	-	-	-	11,510
Marketable alternative assets	-	-	68,832	382,355	451,187
Other	-	1,104	-	-	1,104
Total	\$ 16,998,470	\$ 1,104	\$ 68,832	\$ 382,355	\$ 17,450,761

The Foundation follows FASB guidance related to fair value measurements and disclosure of investments in certain entities that do not have a quoted market price but that calculate NAV per share or its equivalent. These underlying investments do not have a readily determinable fair value and prepare their financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments by major category:

	2019				
	Fair Value Determined Using NAV in Funds	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative Investment Strategy					\$1,000 minimum for transfers
TIAA Access Account	380,629	N/A	None	Daily	
	2018				
	Fair Value Determined Using NAV in Funds	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Alternative Investment Strategy					\$1,000 minimum for transfers
TIAA Access Account	382,355	N/A	None	Daily	

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

The Foundation's Level III investment consists of a Teachers Insurance and Annuity Association of America ("TIAA") Traditional Annuity account, a fixed rate annuity contract that is fully and unconditionally guaranteed and backed by the claims-paying ability by TIAA. During the accumulation phase, the TIAA Traditional Annuity provides a guaranteed minimum rate of interest between 1% and 3% with the potential for additional interest, if declared by TIAA. The TIAA Traditional Annuity is reported at contract value.

The contract value of the TIAA Traditional Annuity equals the accumulated cash contributions, interest credited, and transfers, if any, less withdrawals and transfers, if any. The TIAA Traditional Annuity is not available for sale or transfer on any securities exchange. Accordingly, transactions in similar investment instruments are not observable. The crediting rate is supported by the investment performance of a large, diversified portfolio which is correlated with the highest quality debt security yields and is adjusted for contract liquidity. A 20-year analysis of crediting rates for TIAA Traditional Annuity contracts suggests a rate of return that is representative of a risk adjusted market rate for this type of product. While transactions involving the purchases and sales of individual TIAA Traditional Annuity contracts are not observable in a public marketplace, contract value provides an approximation of fair value.

The following table summarizes the activity within the Foundation's Level III investments for the years ended December 31, 2019 and 2018:

	2019	2018
Balance at January 1,	\$ 68,832	\$ 61,884
Purchases	26,752	22,322
Sales	(6,165)	(2,225)
Distributions and annuity settlement options	(16,445)	(15,368)
Appreciation in fair value	5,329	2,219
	\$ 78,302	\$ 68,832

NOTE 7 - FIXED ASSETS, NET

Furniture, equipment, website development costs, leasehold improvements, and projects in progress, net, consist of the following at December 31, 2019 and 2018:

	2019	2018
Furniture and fixtures	\$ 353,739	\$ 345,059
Office equipment	443,658	443,658
Computer equipment	2,297,133	2,274,623
Software license	302,549	302,549
Website development costs	3,568,458	2,648,272
Leasehold improvements	486,754	476,504
Software projects in progress	-	170,000
	7,452,291	6,660,665
Accumulated depreciation and amortization	(5,277,288)	(4,620,753)
Fixed assets, net	\$ 2,175,003	\$ 2,039,912

Depreciation and amortization expense of fixed assets and software licensing fees for the years ended December 31, 2019 and 2018 totaled \$661,530 and \$655,211, respectively.

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

NOTE 8 - COMMITMENTS

Operating Leases

On April 11, 2013, the Foundation entered into a lease agreement for its national headquarters which commenced on September 20, 2013 and expires on October 31, 2023. Monthly rental payments of \$43,524 began on November 1, 2013 until September 2018, at which time monthly payments increased to \$49,569 until the lease expiration date. For each year of the lease agreement, the lessor will contribute \$25,000 to the Foundation, which is recognized as a reduction in rent expense. The Foundation has the option to extend the term of the lease for an additional two and a half year period with respect to the entire premises. In connection with this new lease, the Foundation entered into an irrevocable letter of credit for \$174,096 as security for performance of the Foundation's obligations under the lease. The bank required the Foundation to purchase a certificate of deposit for the same amount to collateralize the letter of credit over the entire lease term, which is included in investments on the accompanying statement of financial position.

The Foundation leases office space for its chapter offices in various cities throughout the country. These leases expire at various dates and have renewal options ranging from three to five years. The leases provide for increases in future lease payments.

The Foundation also enters into equipment leases for its offices in various cities throughout the country. These leases expire at various dates and last for a period between three to four years.

The minimum annual rental commitments due under all operating leases were as follows:

Year Ending December 31,

2020	\$ 1,560,068
2021	1,402,486
2022	1,212,740
2023	880,614
2024	203,366
Thereafter	<u>89,135</u>
Total	<u>\$ 5,348,408</u>

Rent expense totaled \$1,635,893 and \$1,555,628 for years ended December 31, 2019 and 2018, respectively.

NOTE 9 - PENSION PLAN

On October 1, 1982, the Foundation established a defined contribution pension plan. At inception, employees are eligible to participate in the plan upon hire. Employer contributions to this plan were 5% of each participating employee's salary upon reaching one year of service. On January 1, 2014, the Foundation amended the plan to implement a new graded vesting schedule with respect to Foundation contributions for new employees. New participants to the plan become 100% vested in the portion of Foundation contributions upon reaching three years of service and having worked at least 1,000 hours of service during the plan year. In addition, employees hired prior to January 1, 2014 continue to receive contributions equal to 5% of compensation and receive 6% of a participating employee's salary upon reaching six years of service. The Foundation's contribution to the plan was approximately \$871,000 and \$857,000 for the years ended December 31, 2019 and 2018, respectively.

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

On January 1, 2004, the Foundation established a 457(b) deferred compensation plan for a select group of its executive staff. The 457(b) Plan is a nonqualified deferred compensation plan subject to the provisions of the Code Section 457. Until paid or made available to the participant, all deferred amounts and investment earnings related to deferral amounts are solely the property and rights of the Foundation and are subject to the claims of the Foundation's creditors. Participants' rights under the 457(b) Plan are equal to those of a general creditor of the Foundation. The Foundation's plan assets were approximately \$903,000 and \$785,000 for the years ended December 31, 2019 and 2018, respectively, and are included in investments and accounts and accrued expenses in the accompanying statements of financial position.

NOTE 10 - NET ASSETS

As of December 31, 2019 and 2018, net assets with donor restrictions consist of the following restrictions:

	2019	2018
Purpose restricted:		
Research programs	\$ 10,909,678	\$ 6,802,021
Education programs	2,173,180	2,186,943
Time restricted	1,042,560	2,177,291
	\$ 14,125,418	\$ 11,166,255

Net assets with donor restrictions, with time restrictions, totaling \$3,970,370 are expected to be received within the next 12 months, and upon receipt, will be classified as part of net assets without donor restrictions and utilized to provide funding for outstanding grant commitments or to provide working capital.

NOTE 11 - NET ASSETS RELEASED FROM RESTRICTIONS

For the years ended December 31, 2019 and 2018, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors or the passage of time as follows:

	2019	2018
Purpose restricted:		
Research programs	\$ 11,219,767	\$ 17,589,317
Education programs	4,603,731	4,884,831
Time restricted	1,152,010	2,121,178
	\$ 16,975,508	\$ 24,595,326

NOTE 12 - AVAILABILITY RESOURCES AND LIQUIDITY

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also maintaining sufficient funds to provide reasonable assurance that commitments and obligations supporting mission fulfillment will continue to be met. The Foundation has various sources of liquidity at its disposal, including approximately \$30 million of cash and cash equivalents and investments.

Crohn's and Colitis Foundation, Inc.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

December 31, 2019 and 2018

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considers all expenditures related to its ongoing operating activities to support those activities to be general expenditures. As of December 31, 2019 and 2018, the following table shows the total financial assets held by the Foundation that could readily be made available within one year of the statement of financial position date to meet general expenditures:

	2019	2018
<u>Financial assets at year-end:</u>		
Cash and cash equivalents	\$ 3,100,451	\$ 12,365,023
Pledges receivable, net	13,001,335	9,849,767
Bequests receivable	521,377	270,432
Other receivables	1,875,475	1,702,272
Investments	20,238,195	17,450,761
Total financial assets at year-end	\$ 38,736,833	\$ 41,638,255
Less amounts not available to be used within one year:		
Pledges receivable, net	\$ (4,339,572)	\$ (3,345,321)
Bequests receivable	(177,010)	(170,432)
Other receivables	-	(11,362)
Financial assets not available to be used within one year	(4,516,582)	(3,527,115)
Financial assets available to meet general expenditures within one year	\$ 34,220,251	\$ 38,111,140

The Foundation annually prepares its operating budget that results in a consistent flow of working capital. Approximately 36% of the Foundation's revenues come from its special events, which are managed by the 39 chapters. Special events are scheduled at various times across the fiscal year and help maintain financial viability.

NOTE 13 - RELATED PARTY TRANSACTIONS

The Foundation receives contributions from members of its Board of Trustees. For the years ended December 31, 2019 and 2018, members of the Board of Trustees contributed financial gifts of \$492,807 and \$857,806, respectively.

Included in pledges receivable are \$386,545 and \$635,681 due from related parties as of December 31, 2019 and 2018, respectively.

